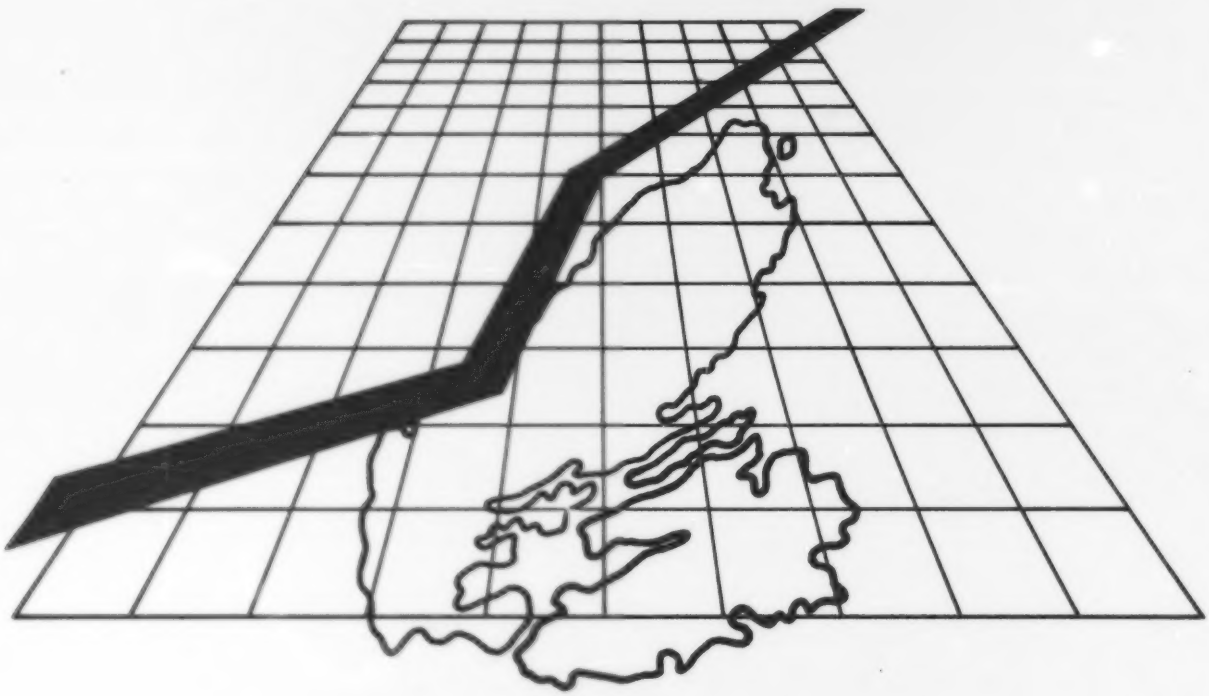
CAPE BRETON

Towards Economic Development and Productive Employment



Report of
The Cape Breton Advisory Committee

September 1985

Canada

NOVA SCOTIA

TOWARDS ECONOMIC DEVELOPMENT

AND

PRODUCTIVE EMPLOYMENT

IN

CAPE BRETON

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THE CAPE BRETON ADVISORY COMMITTEE

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Mssrs. Robert Stanfield, Keith Eldridge and Lawrence O'Neil were named as special advisors to the Committee.

The Committee wishes to record its gratitude to the many people from Cape Breton and elsewhere who offered advice and to government officials who provided assistance.

It also wishes to thank Jean Butler, Julia Cottingham and Elizabeth Dorey for their many hours of labour in providing secretarial and administrative support.

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* Dr. Shaw submitted a letter of resignation to the Honourable Sinclair Stevens on August 26, 1985.

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I INTRODUCTION

Cape Breton has been experiencing difficult economic circumstances for a considerable period of time. More recently, the problem has been compounded by fires in No. 26 Colliery and at Highland Fisheries and by the closing of AECL Heavy Water Plants. The federal government and the Province of Nova Scotia, cooperating in an effort to improve the economic situation in the region, appointed the Cape Breton Advisory Committee in May, 1985. This Report contains its initial views and recommendations.

The Advisory Committee was given the task of making recommendations to the federal Minister of Regional Industrial Expansion and the Premier of the Province of Nova Scotia about the best means of promoting economic development and productive employment in Cape Breton.[1] More specifically, the Committee was asked to provide advice on:

(a) development opportunities in Cape Breton to increase private sector investment and productive employment;

(b) specific measures to improve private sector investment and productive employment in Cape Breton;

(c) ways to ensure a coordinated long-term strategy for economic development in Cape Breton;

(d) ways of improving the climate for private investment, including the following:

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1. For the purpose of this report, the areas being considered include Cape Breton Island, the Town of Mulgrave and the adjacent industrial park.

- the structure and delivery of business incentives and development initiatives;
- how some constraints to development, both in the private and public sector, might be eased or removed;
- ways of easing short-term shocks of labour and industrial adjustment;
- tax and tariff measures - in particular the effectiveness and scope of the special Cape Breton Tax Credit;

keeping in mind their relative effectiveness in promoting sustainable projects, their practicality and ease of business compliance, and the potential impact on adjacent areas and existing business.

Time limitations and the need to avoid the suggestion of yet another study, prompted the Advisory Committee to decide against public hearings. Instead, anyone who indicated an interest in presenting submissions was welcomed and, in a few instances, particular groups were invited to meet with the Committee. In all, consultations were held with over forty local groups, associations and individuals in Cape Breton as well as representatives of the federal and provincial governments. Briefs were presented and oral presentations were made to the Committee at meetings in July and August held in Port Hawkesbury, Iona, Sydney, and Chéticamp. (See Appendix A)

It is important to convey through this Report an indication of the highly positive perspective brought to the Committee by each of the presenters. In the face of such difficult circumstances, there was a decided will to get going and to do whatever it might take to realize strong economic development in Cape Breton. The mood was constructive and cooperative and showed itself in ideas carefully presented by determined voices. This spirit must not be ignored.

The Committee's deliberations centered on two key areas addressed specifically in this report: a long-term strategy for development and immediate measures to ease unemployment.

II BACKGROUND

Cape Breton, with a fairly stable population of about 170,000, is an area of Nova Scotia which has experienced many difficult and severe economic blows in the past two decades. The results can be seen with the help of three indicators. Firstly, the population has remained constant, in spite of natural increases, because of an outflow of people. Secondly, the participation rate, itself a proxy for job opportunities, is only 54 percent, below the provincial average of 59 and the national average of 65 percent. Thirdly, the unemployment rate, averaged for the first eight months in 1985, is estimated by Statistics Canada to be 25.1 percent. Some communities report that more realistic figures are upwards of 50 percent.

The labour force in Cape Breton numbers around 70,000, some 18 percent of the provincial total. The majority, 65 percent, work in the service sector which has accounted for nearly all the new jobs over the past 15 years. Manufacturing, which has faced a number of closures in recent years, still plays a significant role, employing 14 percent of the labour force, which is slightly higher than the provincial average of 12 percent. The primary sector, dominated by the coal industry, accounts for 13 percent and the construction sector for 8 percent.

Employment in the primary sector has been subjected to the same declines that have affected primary production all over North America. Its size, relative to the primary sector elsewhere, is due to the large number employed in coal mining. The future of employ-

ment in this sector will continue to be affected by pressures from automation and productivity growth.

Eighteen months ago, the industrial structure of the Island featured four main employers -- in the coal, steel, heavy water and pulp and paper industries. They alone accounted for almost 7,000 jobs. The major fire in No. 26 Colliery resulted in a loss of 1,000 jobs. The steel mill is faced with a need for ongoing technological improvements and a serious decline in orders, causing great uncertainties among its 1,500 employees. The federal government has announced the closure of the two heavy water plants, with a loss of 750 jobs. In addition, a fire at Highland Fisheries, resulting in a loss of 275 jobs, has further compounded the unemployment picture. Finally, the pulp and paper industry is faced, in the long-term, with a seriously depleted softwood resource damaged by a spruce budworm infestation. Every major employing sector in the economy of the Island is in decline or threatened by a combination of negative factors which will aggravate an already serious unemployment situation.

Generally speaking, new opportunities for employment have not been forthcoming. Although government transfer payments have served to maintain minimum income levels, government efforts to create new employment options have been largely unsuccessful. Substantial resources have been spent searching for, analyzing, assisting and promoting industrial opportunities under various strategies. These strategies have ranged from pursuing large companies with international markets to small "community oriented" enterprises. These strategies have been tried by a number of development organizations including the Industrial Development Division of the Cape

Breton Development Corporation (DEVCO), the Department of Regional Industrial Expansion (DRIE), the Nova Scotia Department of Development (DOD), trade associations, cooperatives and community groups.

These efforts have attempted to overcome a number of constraints. The Island is located a fair distance away from major markets and the transportation system currently available has a number of shortcomings. The natural resources of the area are limited and consist, for the most part, of coal, fish, and forests.

The Cape Breton labour force has a reputation of being militant and unstable -- an undeserved reputation as any close examination of the facts would demonstrate. As elsewhere in western society, the Cape Breton labour force confronts the disruptive effects of technological change. The Committee believes that there are a number of positive changes occurring which will strengthen the economy in the longer term. These are rooted essentially in the will of Cape Bretoners to become more self-reliant and more entrepreneurial, and to play a greater role in the economic decision making process. Many of them assured the Committee that they are prepared to take difficult steps to have a definite stake in creating a bright economic future.

In this Report, the Committee puts forward the elements of a long-term strategy, founded on the resilience of the Cape Breton people, which it believes will foster economic development and productive employment over time. In the very short-term, however, emergency measures must be provided by government to ease the hardships which are currently being faced.

III THE IMMEDIATE CHALLENGE

Both levels of government are fully aware of the nature of the crisis in the employment situation in Cape Breton. Despite special job creation efforts in the public sector over the past year, the unemployment rate for Cape Breton this coming winter is likely to be over thirty percent if additional measures are not taken.

Although its primary role is to advise on means of increasing productive employment in the longer term, particularly within the private sector, the Committee could not ignore the urgency of a situation in which unacceptable numbers of workers, particularly young people, are facing hardship and despair and in which community and family support systems are strained to the limit.

The Committee believes that immediate public investment in projects that will generate employment in the short term is necessary. The Committee suggests that this investment should focus on new infrastructure designed to support industrial development.

1. **The Committee recommends that joint federal-provincial initiatives be taken immediately to launch an infrastructure program which would have two basic objectives — to create a significant number of jobs in various Cape Breton locations and to provide industrial and municipal infrastructure in badly needed areas, so as to permit industrial development and encourage private sector investment.**

Both governments might consider funding the infrastructure program under the federal-provincial Economic and Regional Develop-

ment Agreement (ERDA). An administrative means must be found to permit a number of projects to be launched immediately.

Municipalities and provincial and federal government departments and agencies have provided information on projects that could be initiated in 1985 and 1986. These range from large capital projects, such as the SYSCO modernization and a regional hospital, to small municipal curb and gutter projects. They have an overall cost of approximately $600 million (excluding the cost of projects already underway). Most of the proposed projects entail capital construction, designed to stimulate short-term employment while building facilities of enduring value.

Once governments have determined the magnitude of the program to be supported, a selection of projects to be funded can be rapidly made, based on the dual criteria of job creation and benefit to long-term industrial growth. A preliminary grouping of projects has been made under the categories shown in Appendix B.

It is important that tax-sharing arrangements be made by municipalities which benefit jointly from certain infrastructure projects.

There are a number of large-scale projects which the Committee urges both governments to support because of their significant long-term impact on Cape Breton as well as their job generating capacity.

2. The Committee recommends, with regard to the current Forest Renewal Agreement, that the proposed 400 silviculture workers be immediately employed in forest clean-up on Cape Breton Island; and that the current implementation plan be increased by an additional 500 workers as soon as possible.

3. The Committee recommends that the Sydney tar ponds[3] be cleaned up as soon as possible, as these toxic areas present a major health and environmental hazard. A clean-up program should be launched in 1986 and would generate approximately 360 person-years of employment over three years.

4. The Committee recommends that, since the two levels of government are committed to the objective, both governments should move quickly to complete the modernization of SYSCO,[4] either directly or in cooperation with private industry.

2., 3. and 4. These are treated further in Section IV, 2.

IV LONG-TERM STRATEGY

Based on its own deliberations, and its consultations with many individuals and groups, the Committee believes that a new strategy is required to provide the people of Cape Breton with both the economic improvements they so obviously need and the increasing self-reliance they are so determined to achieve. The objectives of any economic development strategy for Cape Breton Island must place priority on reducing unemployment and improving productivity. Economic security for Cape Breton will only be obtained by the creation of viable, long-term jobs. The out-migration of substantial numbers of Cape Bretoners is not an acceptable solution.

Four basic elements in the required strategy are briefly described.

(a) A major element should be based on the availability of special tax incentives for private sector initiatives. To be fully effective, such incentives must be substantial and unique. To this end, the Committee is making a number of recommendations designed to bring about improvements in the regime already introduced by the Government of Canada.

(b) Another element relates to the "cornerstone" industries: coal and steel; forestry and pulp and paper; fishing and fish processing and agriculture. The commercial viability of the coal and steel industries is a particularly important objective. The capacity of all

these industries to provide productive employment in an increasingly competitive world should be maintained. With this in mind, the Committee is proposing that the Governments of Canada and Nova Scotia undertake a review of existing ERDA subsidiary agreements, as they relate to these industries in Cape Breton, with an open mind about the need for new or enhanced programming and additional levels of funding.

(c) Against this foundation, a highly concentrated effort must be made to seek industrial diversification and employment growth among small and medium-sized employers in the secondary manufacturing and processing industries and in selected portions of the service industries, particularly those required to support business activity. As a means of achieving this kind of effort in these industries, the Committee is recommending that the two governments move as quickly as possible to establish jointly, preferably under the existing DEVCO legislation, a new development agency in corporate form.

(d) The final element in the strategy relates to the need for governments, private corporations, trade unions and voluntary organizations to work together against factors in the Cape Breton economy that act as constraints to economic development. Although there are obviously a number of these factors, the Committee believes that

three are particularly important: the continuing inadequacies in educational programs and entrepreneurial skills; transportation shortcomings and costs that can have negative effects; and an image of the labour force that is both damaging and undeserved.

Underlying the strategy is a concern for public participation. To say that people must be involved in decisions affecting the kind of economic development they want is, perhaps, to state a cliché. Yet, there is considerable evidence to show that involvement in difficult decisions strengthens commitment to their successful implementation. Conversely, lack of involvement increases the prospect of decisions not taken or decisions not carried out. Virtually every presentation to the Committee emphasized the need to enhance opportunity for Cape Bretoners to have a substantially greater voice in determining their economic future. One group stated it this way:

> . . . active interest of local people in their own affairs is the single most important ingredient in any development program. When people know that they can influence the conditions of their lives, they commit themselves to the hard work required to overcome the problems they face.

Interested citizens have routes to fuller involvement in decision-making -- through the people they elect to represent them in governments, the associations they join to promote their individual and professional interests and the projects they support as volunteers to enrich their social, cultural and economic environment. Each of these routes, if acknowledged, serves as a powerful medium for bringing community resources to bear upon urgent problems and,

more importantly perhaps, to have people gain the dignity that comes with a sense of being in control. An effective development strategy for Cape Breton will pay attention to the importance of including Cape Bretoners in decisions about their future.

1. PROVIDING TAX INCENTIVES

It is necessary to provide an investment climate on Cape Breton Island that will result in the attraction and growth of a variety of manufacturing and other enterprises. Both the number and the diversity of these enterprises must be increased if the overall economic profile of the Island is to resemble that of areas with average unemployment and per capita income. This will not be easy because of the intense competition that exists for new investment and employment in North America and because of a number of constraints rooted in the history and geography of Cape Breton.

The federal government suggested that a tax-based incentive program might lead to greater success than previous development measures and requested that the Committee offer its advice in this area. The Committee examined the potential effectiveness of the Cape Breton Investment Tax Credit (CBITC) and the need for additional incentives to improve the climate for private investment.

The reaction of Cape Bretoners to the special tax credit measures has been varied. There is concern that the tax package will not result in significant entrepreneurial activity, although it is worth trying. The opinion is strongly felt that the small Cape Breton entrepreneur can gain little from the CBITC in its present form, particularly with the $50,000 minimum investment.

In making its recommendations, the Committee would like to stress a number of points. Firstly, the emphasis should be placed on tax incentives rather than on grants -- the main objective being to

motivate successful management to establish facilities and expand on the Island. Secondly, the Committee finds that the CBITC needs to be modified so as to become a stronger incentive to entrepreneurs, particularly those in Cape Breton. Thirdly, the Committee doubts that the CBITC, even if modified, will itself be sufficient -- because it and other grant programs tend to be "up front" incentives that encourage new investment but do little to encourage companies to stay and to expand, particularly when times become difficult. Additional measures will be needed.

The proposals of the Committee, are meant to be treated as a package. They aim at:

- stimulating new investment in Cape Breton in order to create increased private sector economic activity;
- creating a mechanism that will achieve its stated goals on a cost effective basis from the government's perspective and prevent abuses either at the commencement of, or during, the program; and
- minimizing government involvement in the selection of business activities undertaken and the administration of the program.

5. The Committee recommends a number of modifications to the Cape Breton Investment Tax Credit.

- **The Investment Tax Credit should not be deducted from assets for capital cost allowance. When it is deducted it reduces the incentive significantly.**

- **Investment tax credits earned by private corporations in Cape Breton operations should be refundable for cash to the extent that the credits are not used to reduce the corporation's income tax liability. One hundred percent of investment tax credits**

earned by the corporation during the next five years should qualify for refundability.

- The minimum capital investment should be lowered from $50,000 to $25,000.

- The Province of Nova Scotia should participate in the tax credit system by providing comparable relief from provincial taxes.

- The Investment Tax Credit should be available on total start-up investment in Cape Breton (excluding inventories and receivables), not just on a restricted list of eligible capital investment.

In order to help maintain investment and support long-term growth, additional measures are proposed.

6. The Committee recommends that the federal government provide low-cost financing to corporations that wish to start up or expand operations in Cape Breton. Two methods of providing this assistance that were considered by the Committee are:

   a) the use of "tax-free" bonds. Under this mechanism, corporations would be able to issue tax-free bonds to finance their Cape Breton operations. Since the interest paid on these bonds would not be taxable in the hands of the recipient, the cost of financing Cape Breton operations would be reduced significantly; and

   b) the payment of "interest assistance" by the federal government. Under this mechanism, only 50% of the interest on amounts borrowed by a corporation to finance Cape Breton operations would be paid by the corporation; the remaining 50% would be paid by the federal government. This would also significantly reduce the cost of financing Cape Breton operations.

   The interest assistance would apply to all bonds issued or loans obtained to finance

Cape Breton operations during the next five years. The maximum term of the borrowing would be 20 years. It is not the intention of the Committee that the federal government be required to guarantee this financing. The interest rate and other features of the borrowing will be determined based on the credit worthiness of the borrower.

7. The Committee recommends that earnings of private corporations related to operations in Cape Breton be eligible for special tax treatment — meaning the deferral of corporate income taxes to the extent that corporate earnings are retained and reinvested in Cape Breton.

With regard to Recommendation 7, the Committee recognizes that the proposal would require continuous monitoring by the federal government to ensure that corporate earnings have been reinvested in Cape Breton. However, the Committee believes the advantages of this proposal, in terms of providing a ready source of operating funds and lowering the cost of capital to the corporation, out-weigh this disadvantage. The participation of the Government of Nova Scotia would be required. Since corporate income tax would be payable on these earnings on distribution or reinvestment outside Cape Breton, the cost to the government of this proposal is simply a deferral of corporate income taxes. In addition, the potential recapture of tax assistance creates a blockage or hurdle to the distribution of earnings and provides a strong incentive for corporations to continue operations in Cape Breton.

For the purposes of the above recommendations, the term "private corporation" refers to all private and public corporations,

whether or not resident in Canada, whose goal is to earn profits from their operations. This is not to exclude community economic development corporations/corporatives. Not included in the definition are those corporations which are directly or indirectly owned or controlled by the federal or a provincial government.

The Committee appreciates the distortion which may occur in national policy as a result of adopting these new measures. It firmly believes, however, that, to be effective, a tax incentive program must be sufficiently rich to make it attractive for industrial investment in Cape Breton, even though that may mean an exception to national policy.

It is obvious that a strong marketing program must be put in place if potential investors, internationally and nationally, are to be aware of the incentive package being offered in Cape Breton.

8. The Committee recommends that a strong marketing strategy be implemented immediately to promote investment in Cape Breton and provide information on the incentives program.

A further measure which the Committee has considered is that of an international trade zone. The Nova Scotia Department of Development and the Cape Breton Development Corporation founded the Sydport International Trade Zone (SITZ) at Sydney, Nova Scotia in 1982. Since establishment, the Zone has provided a bonded warehouse facility and a promotional effort to encourage new business investment in the area and has concurrently been seeking amendments to the Canada Customs Act and the Excise Tax Act to provide it with the

ability to compete more effectively with trade zones in the United States and elsewhere.

The specific changes being sought in the regulations are summarized as follows:

(a) Amend Section 77 of the Customs Act to allow the processing of imported goods while within the Zone, eliminating the payment of duties on goods subsequently exported and, in the case of goods destined for the Canadian market, apply duty only at the time of their departure from the Zone.

(b) Revise Section 78 of the Customs Act to permit duty to be taken on the entry value either before any further operations in the International Trade Zone or on value after operations in the Zone, whichever may be to the advantage of the owner of the goods.

(c) Allow duty and tax-free importation of equipment to the International Trade Zone to be used in processing activities in the Zone.

(d) Recognize the extra territorial status of international trade zones and thus allowing deferral or exemption from the Excise Tax Act. This would affect sections 2(L)(F)(G)(H) relating to the marginal manufacturing rule and other issues as well as an amendment to paragraph 27(L)(B).

9. The Committee recommends that the changes in the Customs Act and Excise Tax Act requested by the Sydport International Trade Zone be accepted.

These concessions would permit the Zone to be more competitive with so called "trade zones" in various countries of the world, including the United States, and would contribute significantly to the ability of the Zone to attract new business investment and related employment.

10. The Committee recommends, additionally, that the concept of sub-zones in other areas of Cape Breton Island (such as the Strait of Canso area), to meet the needs of potential investors with site-specific requirements related to other Cape Breton locations, be endorsed.

11. The Committee recommends that to further enhance the competitive position of SITZ, the present Cape Breton Investment Tax Credit Program be applied to the Zone locations but be made available for a ten-year period in order that firms establishing in these locations up to 1995 may be eligible to apply for this tax concession. The use of tax-free bonds and other recommended measures for the purpose of financing new business investment should apply to firms locating in the Zone.

2. MAINTAINING THE CORNERSTONE INDUSTRIES

Traditionally, the economy of Cape Breton has been based on coal and steel, forestry and pulp and paper, the fishery and, to a lesser degree, agriculture. These industries remain at the core of the economy and their stability is essential. Significant employment growth in these areas is unlikely, but finding means of maintaining their capacity to provide productive and stable levels of employment is imperative. In an increasingly competitive world, this is not an easy task.

One means of supporting these industries is through improving the basic governmental program delivery systems -- in particular the federal-provincial ERDA process. A more concerted effort by both provincial and federal officials is called for to ensure that programs covered by subsidiary agreements for Nova Scotia provide the necessary, if not the extraordinary, measures within them to meet the needs of Cape Breton. The agreements must be flexible and allow for initiatives specific to Cape Breton to flow upward from the "grass roots" rather than be "made in" Halifax or Ottawa. Essentially, for these primary and cornerstone industries, reliance should be placed on increased involvement and responsibility by the traditional sectoral departments of the provincial and federal governments and upon the ERDA process.

12. The Committee recommends that the ERDA subsidiary agreements covering forestry, fishing, mineral development, agriculture and others as appropriate be reviewed as they relate to Cape Breton and the need for new or enhanced programming incor-

porated; and that revised funding levels for Cape Breton, within these agreements, be established, as appropriate. Consideration should be given to setting aside a reserve fund to support extraordinary measures required in Cape Breton which may not be eligible under the program criteria of subsidiary agreements.

Coal and Steel

Despite differences of opinion among Cape Bretoners as to the degree to which the Island should depend on the coal and steel industries, these two industries remain at the hub of the economy and their continued health is critical to both long and short-term development. Although both industries have had a troubled history and in the future are not anticipated to be areas of growth, they provide opportunity for stable economic endeavour.

Coal is not covered under a federal-provincial agreement. In this case, it is obviously important that DEVCO, with the support of the federal government, continue to explore ways and means of proceeding with a new mine development program. Although there is evidence that the DEVCO Coal Division is becoming a commercially viable operation, further modernization and productivity improvements will be necessary. In order to provide a more accurate picture of operating performance:

13. The Committee recommends that DEVCO remove certain social costs, associated with past public commitments of the corporation, when calculating the Coal Division's operating costs.

Critical to the future of the Cape Breton coal industry is the assurance of adequate long-term markets. The Committee believes

that there are two opportunities which should be pursued actively — the development of coal water technology and increased coal-fired electricity generation. These initiatives would not only help to stabilize the coal industry in a time when other national and international markets are unlikely to expand greatly, but they would also create significant employment in the near term.

14. The Committee recommends that every effort be made to assure a long-term market for Cape Breton coal. Specifically, the Carbogel Project should be undertaken quickly, if the current feasibility studies prove positive; and the Nova Scotia Power Corporation should consider the immediate construction of an additional coal-fired, thermal generating station at Point Tupper in anticipation of increased power requirements.

Moreover, in order to support the long-term stability of the coal industry and to stimulate new industry, every effort should be made to foster those enterprises which could locally supply the Coal Division with needed equipment, materials and services, and to foster those which make use of coal and coal products.

Like the coal industry, there are growing demands for the steel industry to be placed on a commercially viable footing. A good beginning, under a federal-provincial agreement, has been the $96 million investment in the reconstruction of a blast furnace, the modernization of the rail finishing mill and other works, and the agreement of the two governments to look at the desirability and feasibility of product diversification for SYSCO.

Market stability is the essential ingredient in future plans for the steel industry. Without it, sound decisions on further modernization and product diversification cannot be made.

15. The Committee recommends that a base market for SYSCO rails be identified and that, in this context, CN be directed by the Minister of Transport to provide a guaranteed long-range annual purchase plan for SYSCO rails.

16. The Committee recommends further that the two governments move quickly to the modernization of SYSCO. Although a difficult decision as to the steel-making process to be used is yet to be made, both governments should commit themselves to reporting on this issue within three months.

As important as any recommendation in the Committee's Report is the overriding need to clean up the Sydney tar ponds and to reduce to safe levels the toxic hydrocarbons emitted in the air by the Sydney coke ovens. There is sufficient evidence of the immediate health hazard to people and the longer-term risks to the environment to spur governments to act at once. The Committee has urged, in Section III, that governments immediately launch a project to clean up the Sydney tar ponds. In this regard, it is estimated that a large proportion of the costs can be recovered over time ($33 million out of a total of $40 million) through an electricity generating process of burning the tar.

17. The Committee recommends, with regard to hazardous emissions relating to the steel-making process, the installation of appropriate anti-pollution equipment as an integral part of the SYSCO modernization plan.

Forests and Forest Product Industries

The forests of Cape Breton, representing over two million acres, have been severely depleted. In the 1970's, Cape Breton Island lost ten million cords of fibre wood because of the spruce budworm. The Nova Scotia Department of Lands and Forests has stated that:

> "The forests of Cape Breton have been severely depleted by the spruce budworm or spruce budworms and subsequent infestations of bark beetles. These catastrophic losses will result in lower harvest yields in future and greatly complicate forest management strategies. Losses of employment and income by forest workers and woodlot owners are inevitable. Contrary to popular belief, the greatest loss will be on small private holdings rather than on the Cape Breton Highlands and Provincial Crown lands."

In spite of these problems, Stora Forest Industries remains one of Cape Breton's major employers. One thousand persons are directly employed by Stora at Point Tupper and approximately 1,000 persons are employed in the woods. Private woodlot owners sell some 110,000 cords of wood annually to the Company.

Forestry in Cape Breton presents an opportunity for public investment which will not only maintain this resource sector, but in so doing will also contribute to the preservation of the environment and the enhancement of the tourism industry. The Committee offers some specific suggestions.

18. The Committee recommends that both governments move quickly to review and renegotiate the Canada/Nova Scotia forestry sub-agreements in order that a longer range forest development strategy can be put in place for Cape Breton; planning should include the acceleration of the forest rehabilitation program as described in Section III; efforts to increase the participation of the small woodlot owners in forest management; and support for forestry training programs.

Fishing

Some 3,000 fishermen are registered to operate from Cape Breton and an average of 1,500 people are employed in fish processing plants. The industry is unstable and the Committee found no evidence on which to base a sound recommendation that would lead to improved prospects for employment in the fishery. There are, however, two areas of fishery-related activity which are noteworthy: improved fishing practice and aquaculture.

Examples of the need for sound information and for improved practices are numerous. Measures to control the quality of fish from points of catching through landing will mean a more desirable product with greater return in the marketplace. Measures to watch and respond to marketing trends are also necessary to cope with such shifts as occurred this summer when the call for groundfish from the United States market left Cape Breton plants without fish to process. Factors of this kind make educational programs essential if fishermen are to understand and act upon fast-changing conditions in their industry. In reviewing and renegotiating the Canada-Nova Scotia Fisheries Subsidiary Agreement, the flexibility to support specific measures for Cape Breton, for example a fish hatchery at Margaree and systems to enable fishermen to treat their industry more constructively, must be incorporated.

Worldwide, aquaculture is becoming a significant way to produce fish. Aquaculture is not new to Cape Breton. Salmon, trout, scallops, mussels and oysters are grown in Cape Breton and promise to provide additional employment as growing procedures and marketing

systems are mastered. Again, it is an example where technical knowledge and sound business practice are key to development.

Agriculture

A five-year plan outlined by the Industrial Development Division (IDD) of DEVCO in May, 1985 specifies principal concerns of Cape Breton's agricultural industry. It refers to the need to stabilize milk production by preventing the present fluid milk quota being bought by off-Island enterprises. It proposes to attend to production of finished rather than feeder beef cattle, and to increase the levels of lamb and grain production.

The Committee found no basis for altering the IDD objective to increase annual revenue to Cape Breton farmers by $.5 million. That objective, however, makes no reference to increased employment.

As is the case for all Cape Breton industry, this Report includes agriculture among the business enterprises which should benefit from its major recommendations. Those recommendations attend to special investment incentives, coordination of development resources (including extension services), an increased capability within the ERDA process to provide the extraordinary measures which might be required by Cape Breton (for example, assistance in defraying farmers' transportation costs), and improved opportunity for the industry itself to dictate the shape of its future. To an industry requiring heavy capital outlay and high levels of technical expertise, these broader recommendations should prove beneficial.

3. SEEKING GROWTH

The structure of the secondary manufacturing and processing sector on Cape Breton Island has a lot to do with the problems that exist there at present. The vast majority of those employed in this sector work, or have worked, at a few large-scale plants. This concentration of employment in a few plants means that the manufacturing sector of the economy is too vulnerable.

A concentrated effort must be made to diversify the economy away from resource industries and attract a variety of small to medium manufacturing concerns and service industries, particularly services to business.

The Committee suggests that both levels of government set targets for the creation of long-term jobs over the coming five-year period. Some 11,000 jobs would have to be created if Cape Breton were to rise to the provincial average employment and participation rates (based on 1984 averages). As the situation in Cape Breton worsens relative to the province, that number rises accordingly.

Attention to job creation must be exercised at two levels if the goal of substantially increased employment is to be reached. Each requires quite different forms of financial and development support. One level includes medium to large scale plants, branch plants and/or service agencies attracted to Cape Breton from the national and international scene; the other, at the local level, includes expansion of existing, and start up of new, businesses. The Advisory Committee cautions against the tendency to stress only one of these levels of development. Both are essential.

The Committee suggests there are two main vehicles to achieve this goal of growth: firstly, a rich tax incentive package; and secondly, a new and carefully focussed Cape Breton-based development agency. The tax incentive package was discussed in Section IV, 1. The proposed development agency is discussed in Section IV, 5.

Experimentation with less traditional forms of business practice and structure should be encouraged. Symbiotic enterprises should be fostered -- manufacturing plants, services, research and development, etc., clustered around a major producer such as coal, pulp and paper or steel, with dependency links in terms of support, or buying from and selling to each other. The potential of the "cluster" strategy should be seriously examined.

The era of mega-projects employing vast numbers of workers in single locations is passing. In the eighties, there is growing evidence of initiatives which create employment through worker-owned and community-owned enterprises in scattered locations. The Committee acknowledges the importance of providing comparable assistance to small-scale, non-traditional enterprises as is offered to businesses with potential to employ large numbers. Their requirements are very different but each is capable of providing secure income and improving living standards.

Examples of relatively new forms of business enterprise are provided by New Dawn, a Cape Breton community economic development corporation; worker cooperatives, democratically run enterprises whose purpose is to provide employment for their members; and LEAD (Local Employment Assistance and Development) projects, a community

based system for employment planning. Traditional definitions of private corporation tend not to include these forms of non-profit employment producing measures. Yet they too require capital and will benefit from investment incentives. They also require careful nurturing as the range of business and production skills are mastered by relatively inexperienced people.

19. The Committee recommends that the definition of business forms eligible for development assistance in Cape Breton include non-profit, economic development, community-based enterprises.

There are a number of specific industrial areas with growth potential that the Committee would like to highlight as opportunities.

High Technology/Communications

With the coming of the "information economy", Cape Breton has new opportunities for capturing industries which are independent of physical location. As well, in connection with University College of Cape Breton (UCCB) and such high-tech firms as Micronav Ltd., spin-off activity could be achieved. Although few hard proposals are in the works, the Committee feels that this should be a target area in any industrial strategy for Cape Breton.

Offshore and Marine-Related Industries

Cape Breton possesses three major harbours -- the Strait of Canso, Louisbourg and Sydney, strategically located close to the great circle shipping route. There are three shipyards and repair facilities along with several boat building operations.

The Strait of Canso, a deep water, ice-free harbour, is the new home of the Nova Scotia Nautical Institute and the site of an

offshore supply base. Opportunities suggested for the area include a world-class underwater centre, a marine technology centre, and the base for a new Navy mine-sweeping fleet.

The Port of Sydney contains excellent shipping facilities at the DEVCO terminal as well as the CN Marine terminal and is the site of the Canadian Coast Guard College. Cape Breton groups are proposing increased port facilities, in anticipation of new markets based on the Sydport International Trade Zone and the relaxation of certain customs regulations.

Continued development of the Sydney International Trade Zone would be desirable in order to develop larger volumes of sea traffic in and out the port. If a core volume of business can bring shipping on a somewhat more frequent basis, this would be an inducement to industries that may require ocean shipping. Sydney is ideally suited to process goods and to export them to European or East Coast United States ports. The key development factor here appears to be establishing core businesses which would encourage the use of Sydney as a viable stopping point for major carriers. Implementation of the Trade Zone concept in Sydport could enhance ocean-going traffic.

Finally, Cape Breton is in an excellent position to develop support for offshore development for both the Venture and Hibernia fields. The future of the marine fabricating industry in Cape Breton depends on establishing a large-scale assembly or fabrication capability through association with which Cape Breton industries can participate in the benefits arising from Venture and Hibernia

offshore development. Important also to this development is the location of a gas plant and marine terminal at the Strait. Furthermore, Mobil's drilling support base could be operated from a Cape Breton location.

20. The Committee recommends that offshore oil and gas opportunities for Cape Breton be very actively pursued, including the establishment of a fabrication yard, the location of the future gas plant and terminal at the Strait of Canso and the use, where eligible, of the Offshore Development Fund for project support.

Tourism

A final area which must be highlighted is tourism. Cape Breton's natural beauty, recreational potential and cultural heritage provide definite economic opportunity for the tourism sector. The northern highlands, the historical Fortress of Louisbourg and the Acadian fishing community of Chéticamp, among others, represent excellent tourist attractions. An exciting proposal is being put forward by Cape Breton artists and business people to develop a major centre for culture, creativity and excellence -- the Centre Bras d'Or at Baddeck, which would, in time they hope, invite comparison with Banff, Salzburg and others. Another initative which promises to enrich the Island's tourist protential is a proposal to establish a Native Village, sponsored by members of Cape Breton's native peoples.

Tourism offers the potential of attracting small and medium sized, labour intensive, Cape Breton-owned businesses -- involving probably less risk and more achievable ends than most other ventures.

One of the major issues facing the industry in Cape Breton is the need for a marketing program of excellence as identified by DEVCO's Industrial Development Division in its five-year plan.

A Canada/Nova Scotia Tourism sub-agreement, signed in November, 1984 provides a basis for tourism planning. The Committee believes that that planning should specifically include a tourism strategy for Cape Breton.

21. The Committee recommends the establishment of a special Cape Breton strategy within the framework of the existing sub-agreement on tourism. The strategy should include, among others, a marketing and advertising strategy of excellence on a large scale for tourism in Cape Breton and a seasonal ferry service from P.E.I. to Cape Breton so as to permit a circular tourist route.

AECL and Gulf Installations

Cape Breton representatives pointed out that many of the facilities of the heavy water plants (laboratories, warehouses, etc.) could have alternate uses in support of local industrial development if left in place and that, in fact, this might prove more cost efficient in the long run than dismantling and selling them. The same contention applies to the Gulf Refinery in the Strait of Canso.

22. The Committee recommends that AECL and Gulf be asked to consider leaving certain facilities (such as warehouses and laboratories) in place for use within the local industrial community.

Government Decentralization

It goes without saying that areas of high unemployment benefit greatly from government decisions to decentralize or re-locate public service units. The Committee urges the federal and provincial government departments to examine whether any operational units or additional staff could be relocated to Cape Breton.

4. ATTACKING CONSTRAINTS

There are a number of constraints to development in Cape Breton which were pointed out frequently in the course of discussions. A concerted effort by the business community, labour, educators and governments is required to alleviate them. Of prime importance are management and entrepreneurial skills, educational systems, labour image and transportation.

Management and Entrepreneurial Skills

Expression of need for improved management and entrepreneurial skills was heard from every industrial sector on the Island. One means of maximizing available managerial talent would be for the management of the Island's major businesses -- coal, steel, pulp and paper and fish processing -- to come together to discuss common problems and areas of interdependency and to develop jointly a long-range plan for their companies in Cape Breton, which they would provide to the Ministers of DRIE and the Department of Development. Not only would weaker managements benefit from working with the stronger ones, but the composite plan should be a useful tool for all those involved in Cape Breton development.

23. The Committee recommends that management of the major cornerstone industries develop jointly a strategic plan for their companies in Cape Breton, which would be updated annually.

The Committee recognizes that effective programs to develop entrepreneurial skills at all levels must relate to the immediate

circumstances of the business person and are not only a matter of offering courses in academic settings.

24. The Committee recommends that the agencies currently involved in management training programs on Cape Breton Island (e.g. Federal Business Development Bank, Nova Scotia Department of Development, the University College of Cape Breton (UCCB), Saint Francis Xavier University, . . .) be invited to submit a joint proposal of a five-year program which would ensure a specified level of entrepreneurial performance for a specified target population of Cape Breton business persons.

Entrepreneurial competencies are also fostered by increased levels, and by a broadened range of business activity. The strategy proposed in this Report is designed to attract successful enterprises to locate in Cape Breton as a result of a rich package of investment incentives. It will also enhance opportunity for local business to develop. Another dimension would be the addition of experienced business persons from overseas who would establish their homes and businesses in Cape Breton bringing capital and expertise. Their interest is reminiscent of the positive contributions made by new Canadians over the years to enriching entrepreneurial life. A recent example in Cape Breton is the Dutch Farmer.

25. The Committee recommends that the federal government, within its ongoing immigration programs, take special initiatives to seek out persons who would be interested in contributing their capital and technical resources and locate their business in Cape Breton.

Educational Systems

Until recently, any discussion of education relating to economic development would attend principally to technical and vocational training and, to a lesser extent, to preparation of industrial managers through post-secondary institutions. Technological change is compelling modern society to revise every aspect of its educational system, making it a life-long phenomenon. Education is no longer limited to the offerings of the established educational institutions.

Cape Breton has a wealth of educational facilities in its universities, its range of technical training institutions, and its public school systems. The Committee's brief period of inquiry uncovered little evidence that the educational system is contending with rampant changes in knowledge and technology. Where evidence was found (for example, at a research institute at UCCB and a community school system in Richmond County), there was a corresponding lack of funding for such effort. Examples of inadequacies noted were UCCB's deplorably inadequate equipment for training engineeering technologists; and the industrial sectors' reports of inadequate response from various training and research systems.

26. The Advisory Committee recommends that educational program proposals (including research) be supported provided they promise to improve knowledge, understanding and skills associated with the Island's economic development strategy.

Labour Force Image

A second constraint in projecting Cape Breton as a place to invest is the image of its labour force. At various times the Cape

Breton labour force has been described as militant and strike-prone, with absentee and productivity problems. This perception seems to be widespread and poses a real constraint to development.

The Committee feels that this image is undeserved and untrue. The Cape Breton labour force is hard working, skilled and stable. It would be worthwhile to gather statistics and facts on this issue perhaps with specific examples of recent successful company experiences such as the Lingan power plant construction.

27. The Committee recommends that the issue of labour image be examined for facts and statistics and that this information be used in any promotion of the area to prospective investors.

Transportation

The Committee agrees that transportation policy and costs are a critical element in the development of long-term economic stability in Cape Breton. Access to the major markets in central Canada and the United States east coast is dependent upon obtaining adequate and relatively inexpensive road, rail, air and ocean transportation for delivering its goods.

Freight costs can be an impediment that makes the difference between a viable or non-viable business operation. As Appendix C demonstrates in a hypothetical case of transporting goods to Oshawa from Sydney as compared to transporting them from London, Ontario, additional freight costs amount to four percent of the value of the merchandise. The use of "up-front" forms of grants and tax incentives, such as the special Cape Breton Tax Incentive and the

topping-up of the DRIE program, provide cash to encourage initial investment. In the long run, however, the higher freight costs are a continuing and unavoidable operating expense.

The principle of distance from major Canadian markets has been recognized in the Atlantic Region Freight Assistance Act and the Maritime Freight Rates Act. These two programs assist substantially with the reduction of freight costs for goods manufactured within the Maritimes region as they move into central Canadian markets. The continuation of these two programs would be an essential ingredient in the development of Cape Breton as a supplier of goodsthat must be moved to major markets.

28. The Committee recommends the continuation of the Atlantic Freight Rate Assistance Act and the Maritime Freight Rate Assistance Act.

The fact that Cape Breton is served by just one railroad places it at a disadvantage when trying to attract plants requiring rail transportation, since, in the absence of competition, the possibility of securing low tariffs is reduced. As well, the trend toward confidential contracts, as proposed in the white paper "Freedom to Move", will be most advantageous to large volume shippers most of which are located in central Canada. Since the long-term development of Cape Breton must focus on smaller plants, rail costs may well be a significant deterrent to private investment.

29. The Committee recommends that, as the confidential contracting proposals related to rail are implemented, the Minister of Transport should then address the need for a mechanism which would

supply some degree of protection for smaller shippers, particularly in an area served by only one rail line.

Air travel, generally being the fastest mode of transportation, is being used more and more to convey small but high-valued goods, replacement parts essential for the quick repair of broken down machinery and equipment, documents, etc. It is also important for the travel of business executives to and from the Cape Breton area. If air transportation connections are inadequate, this will have a negative impact on decisions to move plants into Cape Breton and will certainly inhibit Cape Breton businesses in moving outward to secure markets. At the moment, air transportation into Cape Breton (serving only Sydney) is inadequate -- improvements should be made to increase the schedule flexibility for business travellers.

30. The Committee recommends that the Atlantic Provinces Transportation Commission establish (possibly in Cape Breton) a special transportation advisory service to businesses considering establishing, or already operating, in Cape Breton, in order to provide information on means and costs of transportation and to seek to reduce costs through coordinated efforts.

5. ORGANIZING FOR ECONOMIC DEVELOPMENT

The Committee's mandate called for advice on ways to ensure a coordinated strategy to achieve the goal of creating long-term productive employment in Cape Breton. Specifically it called for examination of the administrative mechanisms which foster development. Under current arrangements, there are two kinds of government programs related to economic development and industrial growth in Nova Scotia: ongoing programs administered by the sectoral departments, federal or provincial; and special federal-provincial programs implemented under the Economic and Regional Development Agreement.

However, Cape Breton has a number of unique features. In the first place, of course, it has had its own development organization, the Cape Breton Development Corporation (DEVCO), which, since 1967, has attempted, in a far-reaching and imaginative way, to stimulate industrial growth. Secondly, the Strait of Canso Industrial Development Authority (SCIDA), established more recently under a federal-provincial agreement, provides special assistance to the Strait area. Thirdly, relative to other areas, Cape Breton has a greater number of municipal units, each with its own approach to development.

In spite of these unique features, the Committee recognized, early in its work, that the present institutional arrangements and program delivery mechanisms for industrial development have a number of weaknesses.

- The public, including potential developers, are confused by the multiplicity and fragmentation of government offices dealing with development.

- Among government officials in Cape Breton, there is a lack of authority to make decisions, without referral to Halifax or Ottawa;
- There has been a failure on the part of provincial government departments to be sufficiently involved in developmental activities affecting Cape Breton. To some extent this criticism applies to federal departments as well. Both levels are failing to acknowledge DEVCO's role as a source of additional assistance for Cape Breton. They tend, instead, to treat it as a substitute for development programs that government departments would normally deliver; and
- The voluntary sector has insufficient access to participation in Cape Breton development decisions. A promising change in this situation was DEVCO's recent consultative process.

A New Development Agency

In formulating its recommendations regarding a structure to coordinate the long-term strategy for Cape Breton industrial development, the Committee offers a number of principles to shape the reorganization.

(a) The development agencies of each level of government should not only fulfill their usual mandate as it applies to Cape Breton, but also provide extraordinary attention to the long-term strategy for Cape Breton development. It is a case of each agency giving extra program attention to Cape Breton.

(b) The respective municipal governments should collaborate to establish common priorities for development activities on the Island, within the purview of that level of government.

(c) There should be systems for increasing the role of Cape Bretoners in shaping their own future, including their ideas, financial investment and responsibility for decisions.

(d) Barriers to development caused by the confusion of a multiplicity of development agencies (i.e. slowness, indecision, "buck-passing") should be removed.

In the context of these principles, the Committee offers a number of specific recommendations.

31. The Committee recommends that a new development agency — Enterprise Cape Breton — be established, preferably as a subsidiary company under the DEVCO legislation, in a manner which provides for its independence in matters of policy, management and operations, from the coal side of the corporation. The new company should be responsible to and funded jointly by the federal and provincial governments. Adequate levels of funding should be established by both governments.

32. The Committee recommends the appointment of a small Board of Directors the members of which should be highly knowledgeable of, and experienced in, matters relating to Cape Breton. Appointments should be made jointly by the federal and provincial governments. The Board should function as a strong, decisive policy-setting group.

33. The Committee recommends further that a number of principles should govern the corporate structure and mode of operation.

- **Its mandate should focus primarily, though not exclusively, on financing, promotion, market intelligence and analysis in the area of secondary manufacturing and processing and of the service sector where there is growth potential.**

- **It should become a "one-stop-shop" to the degree possible, by encompassing the Industrial Development Division of DEVCO and by folding in, for**

example, SCIDA, the Department of Development and the Department of Regional Industrial Expansion; and by co-locating government offices where practical.

It would be for the new organization to decide whether, and in what circumstances, it might wish to develop a mechanism to allow for equity participation for Cape Bretoners in projects with viable long-term returns. One Cape Breton group submitted an interesting proposal for the creation of a common stock development company widely held by Cape Bretoners.

Community Participation

Mindful of the need to ensure the participation of members of the Cape Breton public in economic planning and development, the Committee has examined basic ideas.

(a) The Committee is keenly aware of the important role which municipal government plays in the affairs of the region. The Mayors and Wardens of Cape Breton and Mulgrave were invited to present their combined view as to ways in which the municipal leaders, as a group, could best contribute to the long-term development of the region. The municipal leaders have proposed that they establish themselves as an Island Council of Mayors and Wardens. They envisage their role as one of establishing priorities for action, identifying opportunities, evaluating projects, resolving conflicts and generally supporting the developmental process at the local and sub-regional level. The Island Council would not be represented on the Board of the new development company

but it would expect to have direct access to it in terms of being consulted, providing advice and making recommendations with regard to priorities.

(b) Citizen involvement is also channelled through a variety of development-related groups. These include a range of community interest groups such as VISION, functional groups such as federations of agriculture, tourist associations, labour councils and other interest groups such as those which would monitor the effect of development upon the physical environment. It is virtually impossible to attend to the claims and interests of every group in the course of making difficult decisions about industrial development in these shifting economic times. Yet there are rich resources in these groups. Provision of supportive measures (such as technical and research resources) would enable development-related groups to make substantial contributions to Cape Breton development.

A challenge for the new development agency is to establish ways to tap the knowledge and energy of these groups. A design, outlining routes for exchange between voluntary groups and decision makers, was received by the Committee. It is an example of one way to build creative links between the development agency and the community.

34. The Committee recommends that funding be made available to support municipal and development related voluntary groups in researching and putting forward their proposals on economic development for Cape Breton.

ADDENDUM

The Report of the Royal Commission on the Economic Union and Development Prospects for Canada was released too late for the Committee to undertake a detailed examination of its findings. The Committee wishes to acknowledge the report as one of the most important research efforts in recent times. After a cursory review of the report, the Committee finds itself in agreement with many of the Commission's recommendations, particularly with those, relating to regional productivity and competitiveness of industry.

However, the Committee is very concerned about the recommendations that the federal government move away from direct assistance to firms and from location-specific assistance programs. The Committee feels there are places of severe hardship, such as that being experienced in Cape Breton. These demand that governments consider and make use of all the tools they have available to bring about a swift reversal of the adverse situation. In the view of the Committee, specific programs for Cape Breton are a critical part of the long-term strategy for the area and are needed at a level which the provincial government alone cannot provide. The Committee also questions the view of the Commission on labour relocation as a solution to the unemployment problem, at least as it relates to Cape Breton. Out-migration is a continuing condition in all areas where there is insufficient employment. Such is the case in Cape Breton. There are, however, many thousands in Cape Breton for whom relocation is not an alternative.

APPENDIX A

Organizations and Individuals Who Made Representations to the Cape Breton Advisory Committee

Amber Gate Motel
Atlantic Foundation for Occupational and Environmental Health
Atlantic Provinces Economic Council
Breton Industrial
Canadian Parents for French, Cape Breton Chapter
Centre Bras d'Or
Cape Breton Labour Council
Cape Breton Offshore Trade Association
Cape Breton Highlands National Park
Central Cape Breton Development Committee
Chèticamp Development Commission
Chèticamp - Société St. Pièrre
Chèticamp - Cooperative des Pêcheurs
Coalition of Association for Learning Disabled
Eastern Carbide Tools Ltd.
Glace Bay Economic Action Team
Hugh Hards, Salmon Hatchery
Industrial Cape Breton N.D.P. Economic Development Task Group
Inverness County Federation of Agriculture
MacIntyre, Gilbert
MacLean, Billy-Joe - M.L.A.
MacLean, Dr. James - M.L.A.
MacLeod, G. - UCCB
Magi Consulting
Micronav Ltd.
Mulgrave, Town of and Mulgrave Industrial Commission
Mutual Custom Windows & Doors Ltd.
Native Peoples of Cape Breton
New Dawn Enterprises Ltd.
New Democratic Party
North Sydney, Town of
Port Hawkesbury, Town of
Port Hawkesbury - Heavy Water Plant Employee Representatives
Richmond District School Board
SCIDA
Scotia Synfuels Project
Sydney Engineering and DryDock
Sydney Harbour Ports Regional Development Board
Sydney Medical Society
Sydport
University College of Cape Breton

APPENDIX A CONTINUED

VISION
Worker Co-operative
Young, Brian - M.L.A.

Government Offices

Canada Employment and Immigration Commission
Canada Oil and Gas Lands Administration
Environment Canada
Nova Scotia Department of Fisheries
Nova Scotia Department of Forestry
Nova Scotia Department of Health
Nova Scotia Department of Tourism

APPENDIX B
PRIORITY CATEGORY DEFINITIONS -- INFRASTRUCTURE PROJECTS

1. Projects that will create ongoing employment with no need for operating assistance.

   These projects provide both construction employment and generate or maintain ongoing employment without requiring operating assistance. Examples are the projects proposed for SYSCO, DEVCO and the improvement of the forest resource.

2. Facilities needed to accommodate new ongoing employment.

   These are primarily industrial park and industrial mall facilities for which there is some evidence of demand.

3. Projects with the potential to increase tourist traffic.

   These projects have the potential to increase the number of tourists or the average length of stay. They would provide ongoing benefits to the tourism industry in addition to the construction employment.

4. Necessary infrastructure projects.

   These are projects needed to accommodate economic development (specific road, sewer or water links) or to meet specific health or other standards.

5. Desirable infrastructure projects.

   This category includes most other infrastructure projects, especially sewer and water developments.

6. Downtown-Waterfront redevelopment.

   Government office renovation projects are included with downtown and waterfront redevelopment proposals.

7. Community recreation facilities.

   Community recreation facilities catering primarily to the local population.

8. Road and street projects.

   Local road, street, sidewalk and similar projects. These projects serve local residents primarily.

9. Other projects.

   This is a residual category which includes proposals for the establishment of "institutes" which would need ongoing assistance.

TRANSPORTATION COSTS - APPENDIX C

In order to better understand the magnitude of the transportation cost disadvantage, a hypothetical situation was proposed. The cost of moving auto parts from Sydney to various Ontario centres was compared to the cost of moving the same goods from London, Ontario, to the same centres. A net weight of 45,000 lbs. was assumed and costs were allocated per truckload.

The published rate on the movement of goods from Sydney to Oshawa, Ontario, would be $2,072 after freight subsidies have been deducted. If large volumes of goods were at stake, a lower rate could be negotiated and, in the opinion of the Atlantic Provinces Transportation Commission, the cost might be reduced to $1,578 per truckload. In comparison, the cost of moving the same volume of goods from London to Oshawa, Ontario, would be $475. This is a difference per truckload of $1,103.

The significance of this cost difference depends on the value of the merchandise being moved. If the value of the truckload of merchandise in the example were $30,000, then the additional costs from Sydney to Oshawa would amount to 3.7 per cent of the value of the merchandise. The higher the value of the merchandise, the smaller the relative cost disadvantage.

The table below shows the different costs of transporting auto parts from Sydney and from London to various centres in Ontario.

APPENDIX C CONTINUED

From: Sydney	Current Rates		Estimated Rates	
	A	B	A	B
TO:				
Brampton	2362	2082	1800	1587
Oakville	2457	2166	1800	1587
Oshawa	2362	2072	1800	1578
Windsor	3186	2857	2300	2063
Ste. Jerome, Quebec	3091	2597	1400	1176

A: Rate before Atlantic Region freight assistance subsidy deducted
B: Rate after Atlantic Region freight assistance subsidy deducted

From: London	Estimated Rates+
To:	
Brampton	400
Oakville	400
Oshawa	475
Windsor	400
Ste. Jerome, Quebec	1467 (Actual Rate)

+ APTC tariff library does not contain actual rates from London to these Ontario destinations. Estimated rates are based on other published rates in that area.

Estimated rates from Sydney are those that APTC feels could be negotiated with carriers if there were an acutal and regular movement of substantial volume of auto parts from Sydney.

In case of imported auto parts from Japan, for example, rate per 40 foot container to Toronto (via Saint John) is 3,600 dollars U.S.; to Halifax it is 3,850 dollars U.S. plus 780 dollars Cdn. Halifax to Sydney.